



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

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ARIZONA SECURITIES REGULATORS CAUTION ABOUT ONLINE TRADING

PHOENIX (February 18, 1999) – As millions of investors open online brokerage accounts and Wall Street's computer systems strain to keep up with demand, Mark Sendrow, new Director of the Arizona Corporation Commission Securities Division, offers some sound advice and urges caution. An estimated 7.5 million investors have online brokerage accounts, a number that is expected to top 10 million by the Year 2000. Not surprisingly, the online brokerage industry is experiencing growing pains. State and national securities regulators have been bombarded with complaints from investors stemming from much-publicized outages and computer glitches at major online brokerage firms.

Online trading firms need to answer questions about, among other things, details of their technological capacity, contingency plans, customer complaints and how orders are processed and executed.

"There's no question that the Internet and online investing have leveled the playing field between Wall Street and Main Street and driven transaction costs through the floor," said Sendrow. "None the less, investors need to understand that technology isn't infallible—especially in a startup industry. They also need to recognize that there's a big difference between online investing and online trading."

Chairman Jim Irvin of the Arizona Corporation Commission cautions investors venturing on line "to be cautious and shop around before you pick an online brokerage firm." The Arizona regulators offer these tips:

- ◆ Check out magazines like *Money* and *Kiplinger's Personal Finance* that rate online brokers using such criteria as speed of execution and customer satisfaction.
- ◆ Call the Securities Division to see if the firm is properly registered. Ask for the firm's CRD record to determine whether it has a regulatory disciplinary history. (CRD stands for Central

Registration Depository, a computer database containing information on all registered brokers and brokerage firms in the U.S.)

- ◆ Look beyond the slick advertising. Carefully read the customer account agreement. Understand what you're getting and what you're not getting. Know your rights.
- ◆ Read postings on Internet news groups to see what other online investors are saying about specific firms as well as the industry.
- ◆ Make sure you understand how the software works before you make your first trade and find out where to go if you make a mistake or have a problem.
- ◆ Remember that technology can and does fail and that any system could be overwhelmed by demand in highly volatile market conditions. Your order could be delayed and you may not get the price you want. Consider using limit orders as opposed to market orders.
- ◆ If you have a problem with your online brokerage firm, try to resolve it first by contacting the firm's branch manager or compliance officer. If that fails, contact the Securities Division and the regulatory arm of the National Association of Securities Dealers (www.nasdr.com).

Commissioner Carl Kunasek urges investors not to be seduced by the allure of online trading. "Who wouldn't want to sit at home in front of their computer and make five grand before lunch? The reality is online trading—as opposed to online investing—is highly risky and only appropriate for people with the temperament of gamblers and who have money they can afford to lose."

Despite all the media hype about online trading, the real wealth on Wall Street is still made the old fashioned way—by searching out quality growth companies and buying and holding for the long term, observed Kunasek. "Warren Buffett didn't build his fortune by day trading."

Commissioner Tony West reminds Arizona investors that "investor protection starts with investor education." The Securities Division has free investor education material as well as a speakers bureau for presentations on subjects such as investment fraud. Helpful information is also available at the Division's website at www.ccsd.cc.state.az.us. For more information, contact the Securities Division at: Arizona Corporation Commission Securities Division, 1300 West Washington, Phoenix, AZ 85007. The telephone number is (602) 542-4242.